Prime Value Emerging Opportunities Fund Update – May 2017

- Banks, which account for about a third of the ASX300 Index, were the key reason for the weak Australian share market in May. As a sector, banks fell 9.8% for the month
- The consumer discretionary sector was sold down significantly as investors focussed on Amazon's forthcoming Australian entry and the potential impact of a peaking housing market
- Good gains in Appen and Service Stream were offset in the portfolio as weakness in the consumer discretionary sector weighed on the Fund

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	8.7%	8.0%	0.7%
1 Year	0.7%	8.0%	(7.3%)
3 Months	(1.3%)	2.0%	(0.7%)
1 Month	(1.2%)	0.6%	(0.6%)

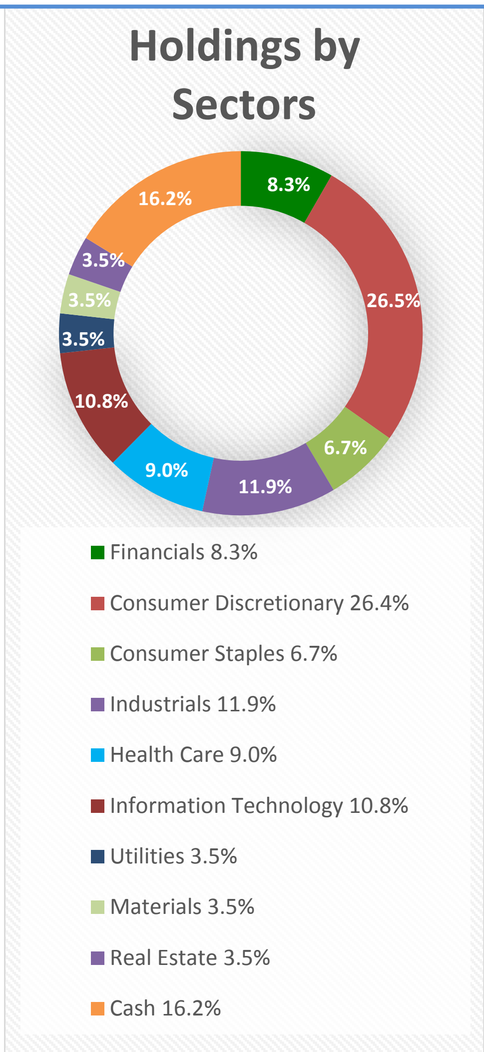
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

The Prime Value Emerging Opportunities Fund is a concentrated portfolio of companies with a market capitalisation of less than $500 million at the time of first purchase by the Fund. The Fund may hold up to 30% in previously held companies which have grown their market cap above $500m. Investors should be aware there may be greater price volatility with an investment in the small and micro-cap sector, than with larger companies.

Top five holdings	Sector
Service Stream	Industrials
BWX Limited	Consumer Staples
Appen Limited	Information Technology
Skydive the Beach Group	Consumer Discretionary
Lifestyle Communities Limited	Real Estate

* The top five holdings make up approximately 22.6% of the portfolio

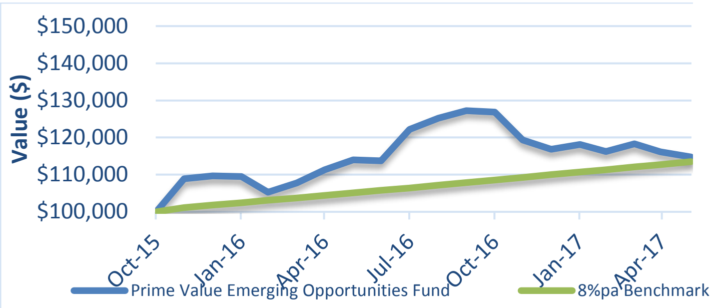
Feature	Fund facts
Portfolio Manager	ST Wong
Investment objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8% pa
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distribution	Half-yearly
Recommended investment period	3 + years
Annualised Return	8.7%



Market review

The Australian share market declined 2.7% in May, weighed down by a large sell-off in banks (-9.8%). By contrast, global equity markets continued to rally despite significant volatility from US political events. Global equities rose on strong US and European reporting seasons and robust economic indicators. A notable development in May was Moody's downgrade of China's sovereign debt rating. Domestically, employment data and business confidence remained solid but retail sales and residential building approvals disappointed. The Australian dollar was steady at US$0.744, despite another significant leg down in the iron ore price (-14%). Brent oil price fell US$1.42 to US$50.31/barrel.

The big sell-off in domestic bank stocks was headlined by the Government's budget levy announcement. This only exacerbated what was a relatively lacklustre bank reporting season and rising housing market concerns. The discretionary retail sub-sector also came under significant pressure during the month (-8.9%), reflecting a number of high profile bankruptcy announcements and the ongoing overhang of Amazon's pending arrival. The best performing sector was once again industrials (+4.7), while the telco sector recovered some of last month's declines. Mid-caps (+0.8%) significantly outperformed, with small-caps (-2.1%), large-caps (-3.3%) and mega-caps (-4.8%) posting negative returns.



This graph shows how $100,000 invested at the Fund's Inception has increased to $114,750 (net of fees). This compares very favourably with the return of the benchmark, where a $100,000 investment would have increased to $113,510 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$ 1.1521
Withdrawal price	$ 1.1429
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

* Unless otherwise stated, all fees quoted are inclusive of GST and the relevant RITC
** of performance (net of management fees) above the agreed benchmark, subject to positive performance

Fund review & strategy

The Fund fell 1.2% in May, which was disappointing considering several of our larger holdings confirmed that their business were tracking very well. Perhaps, portfolio changes amongst larger funds may well have impacted some of our holdings. These events are short term and presents us with opportunities to take advantage of temporary disruptions.

Service Stream upgraded their FY17 profit expectations by approximately 10%. The company's major works with the NBN is on track, with both volume of work done and margins trending to **Service Stream's** advantage. This lift's our confidence in management's ability to not only win contracts but deliver them on time and on budget. Such outcomes will strengthen shareholder value as management has bolstered the company's cash flows into an extremely strong balance sheet. **Service Stream** will end FY17 with an estimated net cash position $35m, or 10c per share (share price end May was $1.33). **Appen** upgraded its 2017 profit expectation from "EBITDA growth at mid-to-high teen percentages" to "EBITDA is estimated to be in the range of 40% to 50% above the prior year's result." This significant upgrade was attributable to strong demand from both new and existing customers of its data base product. Management indicated the pace of demand had accelerated.

Offsetting the strong performances of the above companies were holdings within the consumer discretionary sector. The three major detractors to fund performance in May were **Nick Scali**, **Motorcycle Holdings** and **National Vet;** all consumer discretionary related. Two factors readily identifiable as reasons for soft performance of consumer discretionary stocks and retailers in general were Amazons' becoming a talking point across most media channels and stockbroker's research and concerns around the housing market. Nick **Scali** has in fact advised that, based on good trading conditions to the end of the April, they expect FY17 net profit of $36-37m, 40% higher than the previous year's profit. **Nick Scali** is well positioned as a premium furniture retailer in a fragmented furniture market and a clear growth strategy based on a store rollout program.

Top contributors (absolute)	Sector
Service Stream	Industrials
Appen	Information Technology
Apollo	Consumer Discretionary
Top detractors (absolute)	**Sector**
Nick Scali	Consumer Discretionary
Motorcycle Holdings	Consumer Discretionary
National Veterinary Care	Healthcare

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